STATE OF MONTANA

TEACHERS' RETIREMENT DIVISION

Report on the Examination of Financial Statements

Two Fiscal Years Ended June 30, 1982

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA

TEACHERS' RETIREMENT DIVISION

Report on the Examination of
Financial Statements

Two Fiscal Years Ended June 30, 1982

82-5

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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ELECTIVE, APPOINTIVE, AND ADMINISTRATIVE OFFICIALS

TEACHERS' RETIREMENT DIVISION

Retirement Board		Term Expires
Harold Wenaas, Chairman	Great Falls	1983
James E. Burke	Livingston	1984
J. William Kearns, Jr.	Townsend	1985
J. Thomas Ryan, Vice Chairman	Helena	1985
LeRoy A. Corbin	Butte	1986
Ed Argenbright Superintendent of Public Instruction		Ex-Officio

ADMINISTRATIVE OFFICIALS

F. Robert Johnson	Administrator
Mary L. Andridge	Assistant Administrator

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Teachers' Retirement Division and the Department of Administration are included in the back of this report.

INTRODUCTION

We performed a financial/compliance audit of the Teachers' Retirement Division (TRD) for the two fiscal years ended June 30, 1982. The objectives of the audit were to: (1) determine if the division's financial statements present fairly the financial position of the retirement fund for the two fiscal years ended June 30, 1982; (2) determine division compliance with applicable laws and regulations; and (3) make recommendations for improving division management and internal controls.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

During the audit we worked extensively with division personnel. We thank the TRD officials and staff for their cooperation and assistance during our audit.

BACKGROUND

The Teachers' Retirement Division (TRD) was created in 1937 to provide a source of financial benefits to members of the public teaching profession after their retirement or upon their becoming disabled. Membership in the retirement system includes teachers from 467 school districts, 6 university units, and 11 other state agencies. There are approximately 14,000 active members and approximately 4,900 members and beneficiaries who receive monthly retirement, disability, or survivor benefits.

The governing body of the Teachers' Retirement System is a six-member retirement board. The Governor appoints five members

to four-year terms: two members from the teaching profession, two members who are representatives of the public, and one member who is a retired teacher. The Superintendent of Public Instruction is an ex-officio member of the board.

The responsibilities of the board include, but are not limited to, the following matters:

1. Establishing rules and regulations necessary for the proper administration and operation of the system.

2. Approving expenditures necessary for the proper operation of the system.

3. Determining the eligibility of a person who is applying for membership in the system.

4. Granting retirement, disability, and other benefits under the provisions of Title 19, chapter 4, MCA.

5. Annually determining the rate of regular interest as prescribed in section 19-4-501, MCA.

6. Performing other duties and functions as required to properly administer and operate the retirement system.

Membership in the retirement system is compulsory for all members of the teaching profession, except for persons teaching less than six weeks during the absence of a regular teacher.

The system's primary sources of funds are contributions from active member employees and their employers, and earnings on the system's investments. During fiscal years 1980-81 and 1981-82, active member employees contributed 6.187 percent of their salaries. Employers contributed an amount equal to 6.312 percent of their employees' salaries during fiscal year 1980-81. From July through September, employers' contributions increased to 6.432 percent then to 6.463 percent for the remainder of fiscal year 1981-82.

The State Board of Investments invests member and employer contributions to the system in the various securities permitted by law. The State Treasurer's Office is the custodian of the securities owned by the system and the contributions collected by the retirement system. The division also maintains the Fullam Trust Fund. This fund is the result of a teacher's estate bequest to the division in 1966 for use at the discretion of the Teachers' Retirement Board for the operation of the retirement system.

The retirement funds are reviewed biennially by an actuary. The actuary evaluates the actuarial soundness of the retirement system. As of June 30, 1981, the actuary determined the amortization period for the current unfunded liability to be 48.50 years, an increase of 0.35 years since June 30, 1979. The commonly recommended amortization period for the unfunded liability is 40 years. Based upon professional judgment, the actuary determined the retirement system was funded on an actuarially sound basis as of June 30, 1981. This means that present employee and employer contributions, along with investment earnings, are sufficient to finance present and future benefits at current benefit rates, as well as amortize the current unfunded liability.

PRIOR AUDIT RECOMMENDATIONS

We performed the last audit of the Teachers' Retirement Division for fiscal years 1978-79 and 1979-80. Our report contained 13 recommendations which are still applicable to division operations. We determined that TRD implemented 12 of those recommendations and partially implemented one.

BOND SWAPS

The Department of Administration, Investment Division, is responsible for investing state funds and managing the investment portfolios. The division operates under policies established by the Board of Investments. To improve investment portfolios, the Board of Investments sometimes sells one security to provide funds for the purchase of another offering a higher yield. The original security is often sold at a loss. These transactions are referred to as "bond swaps."

In 1971-72 the Board of Investments completed a study of the accounting methods for bond swaps. Based upon the results of this study, the board selected the deferral method. This method requires the amortization of losses over the shorter of the remaining life of the disposed or acquired security. This accounting practice is not in accordance with generally accepted accounting principles (GAAP). According to the National Committee on Governmental Accounting, as confirmed by the Department of Administration, GAAP requires gains or losses on bond swaps to be recognized in the year incurred (completed transaction method). Gains or losses should be accounted for on the completed transaction method as required by GAAP.

The selection and use of the deferral method by the Board of Investments results in a misstatement on the Teachers' Retirement Division's accounting records. Unamortized net losses incurred on bond swaps involving the retirement fund equaled approximately $1.2 million at June 30, 1980. This amount represents the total of unrecognized losses netted against any gains incurred on bond swaps. During fiscal years 1980-81 and 1981-82, net losses incurred

on bond swaps totaled $5,137,349 and $5,853,535, respectively. During the same two fiscal years, loss amortizations totaled $234,854 and $705,910. The accumulated unamortized net loss on bond swaps was approximately $11.2 million at June 30, 1982.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION, INVESTMENT DIVISION, ACCOUNT FOR GAINS AND/OR LOSSES ON BOND SWAPS AS COMPLETED TRANSACTIONS IN THE YEAR INCURRED.

EQUIPMENT

TRD prepares its financial statements using the full accrual basis of accounting. Under this method of accounting, equipment purchases are capitalized at cost and subsequently depreciated each year over the useful life of the asset. This spreads the cost of the asset proportionately over its useful life instead of fully expensing it at the time of purchase.

TRD currently fully expenses equipment at the time of purchase. This procedure overstates expense in the year the item is purchased and understates expense in future years. In addition, we noted the division's property and equipment, and land and building, purchased with TRD funds are recorded on the Department of Administration's (D of A) accounting records. This causes an understatement of approximately $368,000 of assets reported on TRD's accounting records, while overstating assets for D of A by the same amount.

RECOMMENDATION #2

WE RECOMMEND THE TEACHERS' RETIREMENT DIVISION:

A. CAPITALIZE AND DEPRECIATE EQUIPMENT OVER ITS USEFUL LIFE.

B. RECORD PROPERTY AND EQUIPMENT PURCHASED BY THE DIVISION ON THE DIVISION'S ACCOUNTING RECORDS.

INTERNAL CONTROLS

We have examined the financial statements of the Teachers' Retirement Division (TRD) for the two fiscal years ended June 30, 1982. We issued our opinion dated October 4, 1982, on these statements. As part of our examination, we made a study and evaluation of the system of control of TRD. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/contributions;
2. payroll/benefit payments;
3. expenditures/refunds;
4. cash receipts;
5. plant, property, and equipment; and
6. electronic data processing.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to accounts receivable, accounts payable, and investments. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of TRD is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by TRD. Our evaluation disclosed no condition that we believe to be a material weakness.

The preceding three paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

DISBURSEMENTS AND REFUNDS

The TRD maintains a computerized subsystem which accounts for contribution, disbursement, and refund transactions of the retirement system and records individual member retirement account

balances. These same transactions, except for member account balances, are accounted for on the Statewide Budgeting and Accounting System (SBAS). A reconciliation between the two systems ensures the reliability of amounts recorded on each system.

We determined that a reconciliation is not performed on retirement disbursements or refunds. The reconciliation would ensure TRD management that all entries to one system are also recorded on the other system. A reconciliation should provide an audit trail so that adjusting entries can be traced to supporting documentation. The reconciliation document should be retained by TRD as part of the retirement system's accounting records.

RECOMMENDATION #3

WE RECOMMEND THE TEACHERS' RETIREMENT DIVISION RECONCILE THE BALANCES RECORDED ON ITS INTERNAL COMPUTER SYSTEM TO THOSE RECORDED ON SBAS.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL/COMPLIANCE AND CONTRACTED AUDITS
SCOTT A SEACAT
PERFORMANCE/SUNSET AUDITS
STAFF LEGAL COUNSEL
JOHN W NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet of the Teachers' Retirement Fund as of June 30, 1982, the related Statement of Revenues, Expenses, and Changes in Fund Balance, and the Statement of Changes in Financial Position for the two years then ended. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the investments or investment income of the fund, which constitutes 92 percent of total assets for fiscal year 1981-82 and 36 and 38 percent of total operating revenues for fiscal years 1980-81 and 1981-82, respectively. These investments were examined by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for investments and investment income, is based solely on the opinion of the other auditors.

As disclosed in Note B of the financial statements, the Teachers' Retirement Division applies the deferral and amortization method of accounting to gains and losses on bond swaps. Generally accepted

accounting principles require that bond swaps be reported on the completed transaction method. The above departure from generally accepted accounting principles has resulted in a net understatement of losses on the Statement of Revenues, Expenses and Changes in Fund Balance of $4,902,495 and $5,147,625 for fiscal years 1980-81 and 1981-82, respectively. The asset account Deferred Losses and the liability account Deferred Gains are overstated by $11,382,281 and $161,372, respectively, on the June 30, 1982 Balance Sheet which results in an $11,220,909 overstatement of fund balance.

In our opinion, based upon our examination and the report of other auditors, and except for the effects of deferring gains and losses on bond swaps as described in the preceding paragraph, the financial statements referred to above present fairly the financial position of the Teachers' Retirement Fund, as of June 30, 1982 and the results of its operations and changes in financial position for the two fiscal years then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in reporting the activity of the fund, as described in Note G to the financial statements, have been applied on a consistent basis.

Respectfully submitted,

James Gillett

James H. Gillett, CPA
Deputy Legislative Auditor

October 22, 1982

Approved:

Robert R. Ringwood

Robert R. Ringwood
Legislative Auditor

TEACHERS' RETIREMENT FUND
BALANCE SHEET
JUNE 30, 1982

ASSETS		
Cash in Treasury		$ 1,036,090
Accounts Receivable		3,670,702
Interest Receivable		4,498,488
Investments at Cost:		
Mortgages	$ 39,396,966	
Securities	159,986,468	
Common Stock	33,774,459	
Land and Buildings	146,313	
Total Investments		233,304,206
Deferred Loss		11,382,281
TOTAL ASSETS		$253,891,767

LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts Payable	$ 415,283
Uncleared Collections	16,340
Unamortized Mortgage Discounts	229,996
Deferred Gains	161,372
Accrued Expenditures	348
Total Liabilities	823,339
Fund Balance:	
Annuity Savings Reserve	143,946,111
Annuity Reserve	39,243,321
Pension Accumulation Reserve	69,878,996
Total Fund Balance	253,068,428
TOTAL LIABILITIES AND FUND BALANCE	$253,891,767

The notes to the financial statements are an integral part of this statement.

TEACHERS' RETIREMENT FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

Operating Revenues:	
Membership Contributions	$ 18,230,806
Employer Contributions	17,880,140
Investment Earnings	21,825,559
Total Operating Revenues	57,936,505
Operating Expenses:	
Benefit Payments	24,701,020
Withdrawals	5,893,999
Administrative Expenses	324,661
Investment Expense	82,270
Prior Year Adjustments	108,905
Depreciation Expense	3,961
Total Operating Expenses	31,114,816
Operating Transfer In:	
Public Employees' Retirement System	21,199
Operating Income	26,842,888
Fund Balance, July 1, 1981	226,225,540
Fund Balance, June 30, 1982	$253,068,428

The notes to the financial statements are an integral part of this statement.

TEACHERS' RETIREMENT FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

Operating Revenues:	
Membership Contributions	$ 16,674,792
Employer Contributions	15,780,560
Investment Earnings	18,141,767
Total Operating Revenues	50,597,119
Operating Expenses:	
Benefit Payments	20,599,213
Withdrawals	4,742,599
Administrative Expenses	270,669
Investment Expense	67,032
Prior Year Adjustments	128,676
Depreciation Expense	3,961
Total Operating Expenses	25,812,150
Operating Transfers In:	
Public Employees' Retirement System	29,829
Operating Income	24,814,798
Fund Balance, July 1, 1980	201,406,561
Reserve for Reverted Appropriation	640
Adjustment to Fund Balance	3,541
Fund Balance, June 30, 1981	$226,225,540

The notes to the financial statements are an integral part of this statement.

TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

Source of Working Capital:	
Net Operating Income	$26,842,888
Use of Working Capital:	
Investments	(25,316,442)
Net Increase in Working Capital	$ 1,526,446

Elements of Net Increase in Working Capital:	
Cash	$ (295,541)
Accounts Receivable	932,464
Interest Receivable	505,579
Accounts Payable	373,333
Accrued Expenditures	17,161
Deferred Revenue	1,661
Property Held in Trust	275
Uncleared Collections	(8,486)
Net Increase in Working Capital	$ 1,526,446

The notes to the financial statements are an integral part of this statement.

TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

Source of Working Capital:	
Net Operating Income	$24,814,798
Use of Working Capital:	
Investments	(25,173,054)
Items not Requiring Working Capital:	
Donations	3,541
Net Decrease in Working Capital	$ (354,715)

Elements of Net Decrease in Working Capital:	
Cash	$ (547,343)
Accounts Receivable	(82,720)
Interest Receivable	651,124
Accounts Payable	(364,788)
Accrued Expenditures	(3,002)
Deferred Revenue	(1,009)
Property Held in Trust	450
Uncleared Collections	(7,427)
Net Decrease in Working Capital	$ (354,715)

The notes to the financial statements are an integral part of this statement.

TEACHERS' RETIREMENT DIVISION

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1982

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Teachers' Retirement System maintains its accounts on the full accrual basis of accounting.

Valuation of Investments

Short-term investments and state securities are stated at cost. Federal and corporate securities are stated at book value increased by the amount of unamortized premiums ($117,639 in fiscal year 1982) and decreased by unamortized discounts ($14,216,468 in fiscal year 1982).

Market values of the investments were as follows:

	June 30, 1982
Common Stock	$ 35,931,716
Securities:	
Repurchase Agreements	3,300,000
Bankers Acceptance	4,978,253
U.S. Government Securities	5,857,531
Canadian Obligations	12,530,761
Corporate Bonds	92,270,345
Securities Subtotal	118,936,890
Montana Mortgages	39,383,527
Land and Building	146,368
	$194,398,501

NOTE B. GAINS AND LOSSES ON BOND SWAPS

The deferral and amortization method was used for accounting for gains and losses on bond swaps (i.e., the unamortized deferred

gains or losses are netted against the investment account and written off over the life of either the bond sold or acquired, whichever is less). We understand that this practice is currently under study by the National Council on Governmental Accounting.

NOTE C. DESCRIPTION OF PLAN

The Teachers' Retirement System is a defined benefit plan that covers all teachers in the state of Montana. Six and three-sixteenths of a member's salary is deducted by the employer and is sent to the Retirement System to be credited to the member's individual account. The employer pays an amount equal to 6.463 percent of the member's salary to the Retirement System.

A detailed description of the Teachers' Retirement System Plan can be found in the Montana Code Annotated, Title 19, Chapter 4, and in the Montana Teachers' Retirement System Handbook of Information, available upon request from the Teachers' Retirement System, 1500 Sixth Avenue, Helena, Montana, 59620.

NOTE D. UNFUNDED ACCRUED LIABILITY

Method of Funding

The method of funding employed in the actuarial valuation as of July 1, 1981, is commonly referred to as the entry age normal cost method. This method establishes a normal cost of the system, as well as an unfunded percentage of total salaries required to fund the benefits, assuming this percentage had been contributed since each member's entry into the system.

The unfunded accrued liability represents the excess of the present value of total liabilities over the present assets of the system and the present value of expected future contributions for

normal costs. The unfunded accrued liability was calculated to be $402,612,325 as of June 30, 1981. The amortization period of the unfunded liability was determined to be 48.5 years.

The actuary concluded that the Retirement System is funded on an actuarially sound basis. This means that the present employee/employer contribution rate is sufficient to fund the actuarial liability.

Change in Actuarial Assumptions

Disability rates are based upon the ordinary disability rates published by the Railroad Retirement Board in its eighth valuation with modifications to reflect the Teachers' Retirement System experience. The study revealed that the number of members receiving disability benefits is higher than had been projected. For the net result refer to withdrawal rates.

Withdrawal rates are based upon a recent study of the experience of the Teachers' Retirement System. The study indicated that the number of terminations was less than projected. In setting new long-term withdrawal rate assumptions, consideration was given to the current state of the economy which would tend to discourage terminations. It was also recognized that some school districts have had a reduction in personnel due to reduced enrollment. The net result of the change in the disability and withdrawal assumptions was an increase in the funding rate of .201 percent. This resulted in an increase in the amortization period of 2.70 years.

The net effect of the disability rate changes was minor because the increased liability for disability tended to offset the liability for retirements. The majority of the funding rate increase was attributable to the change in the withdrawal assumptions.

Future salaries are based upon a recent study of longevity and meritorious increases by age. In addition to the base increases, an inflationary increase of 5½ percent per year is assumed.

(1) A miscalculation was found to have occurred in a computer program which had been prepared in 1975 by the state's data processing division to extract data for the actuarial valuation. The program inappropriately annualized all salaries which resulted in salaries paid under a ten or nine month contract being overstated. A valuation was performed to determine the magnitude of the error and it was determined that the amortization period had been understated by 3.03 years and the 40-year funding rate understated by .266 percent.

(2) A major reduction in the funding requirements also occurred as the result of legislation pertaining to the handling of termination pay in the calculation of average final compensation. The new legislation provides a member with three options in regard to the use of termination pay in the calculation of benefits and establishes a rate of contributions for the specific option elected. Previously, termination pay was simply added to a member's average final compensation, with only regular contributions required. As a result of this legislation, there was a reduction of .474 percent in the funding rate and a reduction in the amortization period of 6.39 years.

NOTE E. ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

The actuarial present value of accumulated plan benefits is as follows:

1.	Vested benefits of participants receiving payments:	$226,352,000
2.	Vested benefits of current employees:	187,519,000
3.	Nonvested benefits of current employees:	11,802,000

The present value of vested benefits of current employees anticipating future benefit increases based upon projected salary increases would be $354,152,000. Similarly, the present value of nonvested benefits based upon anticipated increases based on projected salary increases would be $22,453,000.

The projected increases in vested benefits are based upon an underlying cost-of-living assumption of 5½ percent plus increases for meritorious service and longevity.

NOTE F. LITIGATION

As of June 30, 1982, the Board is party to one lawsuit which would allow certain members, both retired and active, to purchase additional creditable service for private teaching employment within the state of Montana. Should the case be decided against the Board, the decision would have definite cost implications which would result in increased funding requirements. At this time, the exact number of members eligible to purchase the service, as well as the amount of service cannot be determined. Therefore, the cost is undeterminable at this time.

NOTE G. REPORTING

Teachers' Retirement Division's financial statements presented in reports previous to this one were prepared from the activity in the 09089 accounting entity (Teachers' Retirement Agency Account) only. To properly reflect all activities of the division, the current financial statements for fiscal years 1980-81 and 1981-82 were consolidated from the following accounting entities: 02077 - Teachers' Retirement Earmarked Revenue Account; 09089 - Teachers' Retirement Agency Account; and 09307 - Teachers' Retirement Fullam Estate Agency Account.

AGENCY RESPONSES

The Teachers' Retirement System

State of Montana
1500 Sixth Ave.   Phone 406-449-3134
HELENA, MONTANA 59620

RECEIVED
JAN 4 1983
MONTANA LEGISLATIVE AUDITOR

January 4, 1983

James H. Gillett
Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Gillett:

Enclosed is our written response to the recommendations addressed in your recent audit of the Teachers' Retirement Division.

We wish to thank you for the opportunity to reply and the fine cooperation we have received from you and your staff in this and past audits.

Sincerely,

F. Robert Johnson

F. Robert Johnson
Executive Secretary

/kr
enclosure

Recommendation #1

We recommend the Department of Administration, Investment Division, account for gains and losses on bond swaps as completed transactions on the year incurred.

This recommendation is outside the scope and authority of the Teachers' Retirement Board, therefore, we will defer comment to the Department of Administration.

Recommendation #2

We recommend the Teachers' Retirement Division:

A. Capitalize and depreciate equipment over its useful life.

We concur in this recommendation, however, it is our understanding that implementation cannot be accomplished on SBAS until July 1, 1983 when the new treasury fund structure is implemented.

B. Record property and equipment purchased by the Division on the Division's accounting records.

We concur in this recommendation.

Recommendation #3

We recommend TRD reconcile the balances recorded on its internal computer system to those recorded on SBAS.

A reconciliation of this nature has been done annually. We are currently studying the recommendation as to the feasibility of providing more frequent reconciliations and a format which takes into consideration the specific points addressed in the audit report.

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 449-2032

HELENA, MONTANA 59620

RECEIVED
JAN 4 1983
MONTANA LEGISLATIVE AUDITOR

January 3, 1983

Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

In accordance with your request, we submit the following response to a recommendation included in a recently completed audit for the Teachers' Retirement Division, an "attached to" agency of the department.

Recommendation #1

We recommend the Department of Administration, Investment Division, account for gains and/or losses on bond swaps as completed transactions in the year incurred.

Response

Since the deferral method was previously an accepted policy, and a majority of other states continue to use it, the department believes it should continue to consistently apply the current practice until official adoption of the completed transaction method of accounting for bond swaps.

Sincerely,

Morris Brusett

MORRIS L. BRUSETT
Director